TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 796 - HB 1082

March 13, 2015

SUMMARY OF BILL: Authorizes franchise and excise (F&E) tax credits equal to the lesser of $5,000 or 20 percent of gross annual wages for each veteran hired, provided that the veteran is a Tennessee resident, has served on active duty after September 11, 2001, was unemployed for over 4 weeks preceding the hiring, was hired on or after January 1, 2014, was employed by the taxpayer seeking the credit for more than 180 consecutive days if the veteran was unemployed for less than 6 months, or 30 consecutive days if the veteran was unemployed for 6 months or more, and the taxpayer maintains documentation evidencing the veteran's honorable military service.

Establishes a credit for all state sales or use taxes paid, except at the rate of one-half percent, on the sale or use of qualified tangible personal property, if the taxpayer has established its international or national headquarters in this state and has previously been a qualified headquarters facility that elects to expand its headquarters facility by either: making a minimum capital investment of at least $10,000,000 and creating at least 100 new full-time jobs in conjunction with the expansion and remodeling of the facility; or making a minimum capital investment of at least $50,000,000 and creating at least 50 new full-time jobs in in conjunction with the expansion and remodeling of the facility.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – $3,850,100

Forgone State Revenue – Exceeds $964,600

Decrease Local Revenue – $113,000

Forgone Local Revenue – Exceeds $27,100

Other Fiscal Impact – Additional economic impacts may occur as a result of this bill. However, due to many unknown factors, fiscal impacts directly attributable to secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions relative to the F&E Tax Credits:

- According to the United States Department of Veterans Affairs data, the Tennessee Gulf War-era II veteran population is estimated to be approximately 62,873 in 2015.

- According to the U.S. Department of Labor, Bureau of Labor Statistics (BLS), the labor force participation rate for Gulf War-era II veterans was 82.6 percent in February 2015. It is therefore estimated that in 2015 there will be approximately 51,933 (62,873 x 82.6%) Gulf War-era II veterans in the labor force.
- According to BLS data, the February 2015 unemployment rate for all Gulf War-era II veterans was 6.7 percent. BLS reports that, in December 2014, the unemployment rate was 5.6 percent in the U.S. and 6.6 in Tennessee (17.9 percent higher than the U.S. rate). The unemployment rate for Gulf War-era II veterans in Tennessee is assumed to be 7.9 percent [6.7% + (6.7% x 17.9%)]. The number of unemployed Gulf War-era II veterans in Tennessee is estimated to be 4,103 (51,933 x 7.9%).
- Based on BLS data on the number of U.S. unemployed persons by duration of unemployment, it is estimated that approximately 75 percent, or 3,077 (4,103 x 75.0%), of Gulf War-era II veterans in Tennessee will be unemployed for longer than four weeks.
- BLS data shows that in the U.S. the unemployment rate for those unemployed longer than five weeks has decreased by approximately 11.7 percent between January 2014 and January 2015. According to the U.S. Department of Labor, in 2010 approximately 67.2 percent of employed Gulf War-era II veterans were working in the private sector. Therefore, it is assumed that approximately 70% of the annual decrease in the number of unemployed is due to the unemployed persons gaining private sector employment, and the remaining 30 percent is due to the unemployed persons exiting the labor force or gaining public sector employment.
- As a result, it is estimated that, out of 3,077 Gulf War-era II veterans unemployed for over 4 weeks, 252 (3,077 x 11.7% x 70.0%) would obtain private sector employment annually under current law without the tax credit in place. It is further estimated that an additional one percent, or 31 (3,077 x 1.0%), of such veterans will receive employment in place of a non-veteran employee as a result of the tax credits authorized in this bill, for a total of 283 jobs filled with Gulf War-era II veterans. This number is assumed to remain constant into perpetuity.
- Any fiscal impact to the state associated with tax credits earned on such employees will be considered a decrease in state revenue.
- It is estimated that taxpayers will claim the credit for 70 percent, or 198 (283 x 70.0%), of such employees.
- According to the U.S. Bureau of the Census, the 2013 median income of veterans was $36,381.
- Under this bill, a taxpayer would be able to claim $5,000 in tax credits for any wages over $25,000 per employee. Assuming normal distribution, and a minimum income of $3,500, taxpayers will claim tax credits for 99 employees (198 x 50.0%) with incomes at the median or above, for 33 employees (198 x 50.0% x 33.3%) with incomes between $25,000 and the median, and for 66 employees (198 x 50.0% x 66.7%) within incomes between $3,500 and $25,000.
- Further assuming the average income of the $3,500 to $25,000 income range to be $14,250 [($3,500 + $25,000) / 2], the recurring decrease in state F&E revenue is estimated to be $848,100 [(99 x $5,000) + (33 x $5,000) + (66 x $14,250 x 20.0%)].

- This part of the bill takes effect January 1, 2016; however, it will apply to any Gulf War-era II veterans hired on or after January 1, 2015. Therefore, it is assumed that the first year (FY15-16) impact will be equal to the full-year impact.
- Any fiscal impact to the state associated with tax credits earned on Gulf War-era II veterans that will be hired as a direct result of the proposed tax credit, for positions that would not be created under current law in the absence of the credit will be considered forgone revenue.
- Assuming that at least 50 Gulf War-era II veterans will be hired as a direct result of the proposed tax credit, and that the employers will claim an average tax credit of $4,283 per employee ($848,100 / 198), the recurring forgone state F&E revenue is estimated to exceed $214,150 (50 x $4,283).

Assumptions relative to the Sales Tax Credits and Total Impact:

- Under current law, a taxpayer that constructs, expands, or remodels a headquarters facility in this state through a minimum capital investment of at least $10,000,000 and creates at least 100 new full-time jobs in conjunction with the construction, expansion, or remodeling of the facility is eligible for a credit of all state sales or use taxes paid to the state of Tennessee, except tax at the rate of one-half percent, on the sale or use of qualified tangible personal property that is directly related to the creation of the new jobs.
- Based on the Department of Revenue's (DOR) analysis of qualified headquarters expansion credits given in the past, it is estimated that approximately $5,000,000 is awarded on average each fiscal year.
- Most of the companies that qualified for such credits would still have qualified for the credit with a minimum capital investment requirement of $50,000,000 as introduced by the proposed legislation. DOR therefore assumes that 12.5 percent in additional credit will be given each fiscal year for firms that meet the higher minimum capital investment as well as the lower new full-time employee job requirement of 50 jobs. The recurring decrease in state revenue is estimated to be $625,000 ($5,000,000 x 12.5%).
- Further, the bill as introduced will allow credit to all state sales or use taxes paid to the state of Tennessee during the investment period, with no requirement that the sales are directly related to the expansion or remodeling of the headquarters. DOR, as a result, assumes that taxpayers will claim an additional 50 percent in credits, for a recurring decrease in state revenue of $2,500,000 ($5,000,000 x 50.0%).
- The total recurring decrease in state sales tax revenue is estimated to be $3,125,000 ($625,000 + $2,500,000), beginning in FY15-16.
- The effective rate of apportionment to the local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring decrease in state sales tax revenue is estimated to be $3,001,969 [$3,125,000 – ($3,125,000 x 3.617%)], beginning in FY15-16.
- The recurring decrease in local sales tax revenue is estimated to be $113,031 ($3,125,000 x 3.617%), beginning in FY15-16.
- Any fiscal impact to the state associated with tax credits claimed by companies that construct, expand, or remodel their headquarters facility and meet other requirements of this bill, as a direct result of this bill, will be considered forgone revenue.

- The recurring forgone state sales tax revenue is estimated to be at least 25 percent of the state sales tax revenue decrease, or $750,492 ($3,001,969 x 25.0%); the recurring forgone local sales tax revenue is therefore estimated to exceed $27,145 ($750,492 x 3.617%).
- The total recurring decrease in state revenue as a result of this bill, beginning in FY15-16, is estimated to be $3,850,069 ($848,100 + $3,001,969); total recurring forgone state revenue is estimated to exceed $964,642 ($214,150 + $750,492); the recurring decrease in local revenue is estimated to be $113,031; and the recurring forgone local revenue is estimated to exceed $27,145.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Jeffrey L. Spalding

Jeffrey L. Spalding, Executive Director

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